



# CAPITAL MARKETS PLAYERS SURVEY 2012



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## US \$ CONVERSION RATES

	2012	2011
Ush	2,504.54	2,552.75
Ksh	84.52	88.87

## ACRONYMS

<b>CMA</b>	Capital Markets Authority
<b>EAC</b>	East African Community
<b>SCD</b>	Securities Central Depository
<b>USE</b>	Uganda Securities Exchange

## EXECUTIVE SUMMARY

Capital markets are vital in promoting and sustaining economic growth. They provide an efficient medium to channel and mobilize savings for investment in productive assets to enhance a country's long-term growth prospects. Well-functioning capital markets tend to improve information quality by encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2012, CMA had licensed **23** market players with **eight (8)** being Broker/Dealers, **seven (7)** Fund managers, **one (1)** Trustee, **one (1)** securities exchange and **eight (8)** Investment Advisors.

### Main Findings

#### Industry Size

The industry size was assessed by focusing on: the asset base; distribution network; employment trends; and total client base. In 2012 the total asset base for the industry grew by thirty percent (30%) to stand at **Ush 7.21 billion (US \$ 2.88 million)** from **Ush 5.64 billion (US \$ 2.21 million)** in 2011. In comparison, Kenyan market players reported a growth of over five percent (5.25%) in balance sheet assets to close 2012 at **US \$ 196.87 million** from **US \$ 187.07 million** at the end of 2011. The Market Players reported having a total of **106** employees, an increase of seventeen percent (17%) from **90** employees in 2011. The capital markets industry had a client base of **15,074** retail and institutional clients.

Eighty nine percent (89%) of all the Market Players surveyed were subsidiaries of other companies with thirty one percent (31%) of the subsidiaries having their parent companies in Kenya. All the Market Players had their offices in Kampala with none having branches outside Kampala.

#### Industry Performance

Industry performance was assessed by looking at turnover; profitability; industry costs and cash-flows. The industry posted a decline of thirteen percent (13%) and thirty percent (30%) in turnover and total costs to **Ush 4.52 billion (US \$ 1.80 million)** and **Ush 4.71 billion (US \$ 1.88 million)** respectively in 2012. The market players had recorded a turnover of **Ush 5.20 billion (US \$ 2.04 million)** and a costs of **Ush 6.73 billion (US \$ 2.64 million)** in the previous year. Kenyan market players on the other hand had a three percent (3%) increment in turnover to **US \$ 64.52 million** in

2012 from **US \$ 62.90 million** in 2011. Their costs declined by 23% to stand at **US \$ 51.03 million** in 2012 from **US \$ 66.35 million** in 2011.

The market players recorded an eighty seven percent (87%) reduction in losses to post a loss of **Ush 193.28 million (US \$ 0.08 million)** in 2012, an improvement from a loss of **Ush 1.53 billion (US \$ 0.6 million)** in the previous year. Their Kenyan counterparts on the other hand posted a growth of over two hundred percent (263%) to record a profit of **US \$ 13.56 million** in 2012 from a loss of **US\$ 3.45 million** in 2011.

### **The Cost of Doing Business in the Capital Markets Industry**

In surveying the cost of doing business, the focus was on aspects such as: licence renewal; inspections; approval of public offerings; licence fees; and the preparation process for inspections. Eighty three percent (83%) of the market players surveyed gave favorable ratings to their interactions with CMA owing to the good customer care. The Market Players reported that while it took on average 2 working days to compile the information needed for CMA inspections, CMA took an average of 24 working days to renew their licences.

### **Participation of Citizens of the East African Community (EAC) in Uganda's Capital Markets**

Eighty nine percent (89%) of all the Market Players surveyed were subsidiaries of other companies with thirty one percent (31%) of the subsidiaries having their parent companies in Kenya.

A total of three thousand and thirty three (**3,033**) clients representing twenty percent (20 %) of the total registered clients were from the East African region. Kenyan investors accounted for eighty eight percent (88%) of regional investors.

### **Other Market Indicators**

All the market players indicated that they had a Board of Directors. The Boards had an average of 5 Directors with an average of 4 non-executive Directors. Majority of the Boards met quarterly.

A large number of the market players (83%) undertook market research and analysis with 63% distributing their publications.

## CHAPTER ONE: INTRODUCTION

### 1.1 Brief Background on the Capital Markets Industry in Uganda

Capital markets are vital in promoting and sustaining economic growth. They provide an efficient medium to channel and mobilize savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects. The presence of deep and broad capital markets is critical in spurring economic growth. Additionally, capital markets also provide a medium for risk management by providing investors room to diversify their holdings. Well-functioning capital markets tend to improve information quality by encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2012, the Ugandan capital markets had **23** market players with **eight (8)** being Broker/Dealers, **seven (7)** Fund managers, **one (1)** Trustee, **one (1)** securities exchange and **eight (8)** Investment Advisors.

Since inception, the capital markets in Uganda have witnessed the listing of fifteen (**15**) companies, seven (**7**) of which are cross listings from the Nairobi Securities Exchange (NSE). To date eleven (**11**) corporate bonds valued at **Ush 218.76 billion (US \$ 86.62 million)** have been issued. Five (**5**) of these bonds have been redeemed. The government of Uganda also launched a government bond program in 2004 and at the end of 2012, there were **thirty seven (37)** Government Bonds listed at the USE.

### 1.2 Capital Markets Industry Performance 2012

#### 1.2.1 Primary Markets

In the primary market for equities, Umeme Limited offered shares to the public in an Initial Public Offering (IPO) that ran from 15<sup>th</sup> October -7<sup>th</sup> November 2012. The company sold 622 million shares at a price of **Ush 275 (US \$ 0.10)** that targeted raising **Ush 171.15 billion (US \$ 65 million)**. The offer was over-subscribed by 35% and brought on board 6,464 new shareholders. The shares started trading at the USE on 30<sup>th</sup> November 2012, while cross-listing at the NSE took place on 14<sup>th</sup> December 2012.

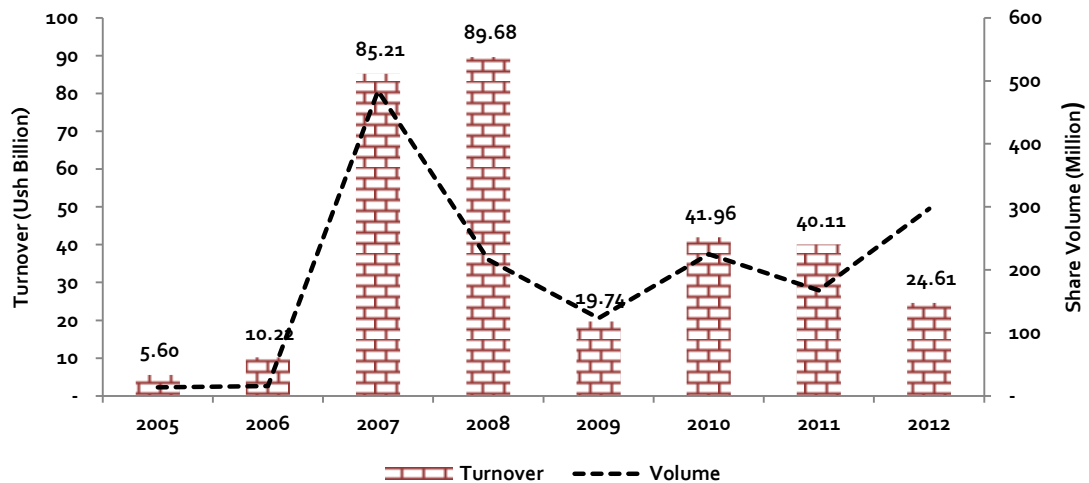
In the debt market, the African Development Bank (AfDB) issued two tranches of **Ush 12.5 billion (US \$ 4.90 million)** each of a **Ugx 125 billion (US \$ 49.01 million)** medium term note. The first

tranche was over-subscribed by 50% while the second one was oversubscribed by 55%. The first tranche was listed at the USE on 2<sup>nd</sup> August 2012, while the second one was listed on 25<sup>th</sup> June 2013. The issue is part of a program which will allow the AfDB to issue bonds in multiple tranches to fund infrastructure and other projects in Uganda. The MTN approach was adopted to allow AfDB to regularly tap into the Ugandan capital markets by issuing various tranches, rather than stand-alone transactions thereby minimizing costs for its clients and reducing the lead time necessary to access the market.

### 1.2.2 Secondary Markets

The capital markets indicators displayed mixed performance in 2012. Turnover at the USE for the year fell to **Ush 24.61 billion (US \$ 9.74 million)** from **Ush 40.11 billion (US \$ 15.88 million)** reported in 2011, a decline of 39%. The monthly average turnover at the USE in 2012 stood at **Ush 2.05 billion (US \$ 0.81 million)** compared to **Ush 3.34 billion (US \$ 1.37 million)** recorded in 2011, a decline of 39%. Share volume traded jumped by 77.41% to 297 million shares from 167 million transacted in the previous year (see figure 1).

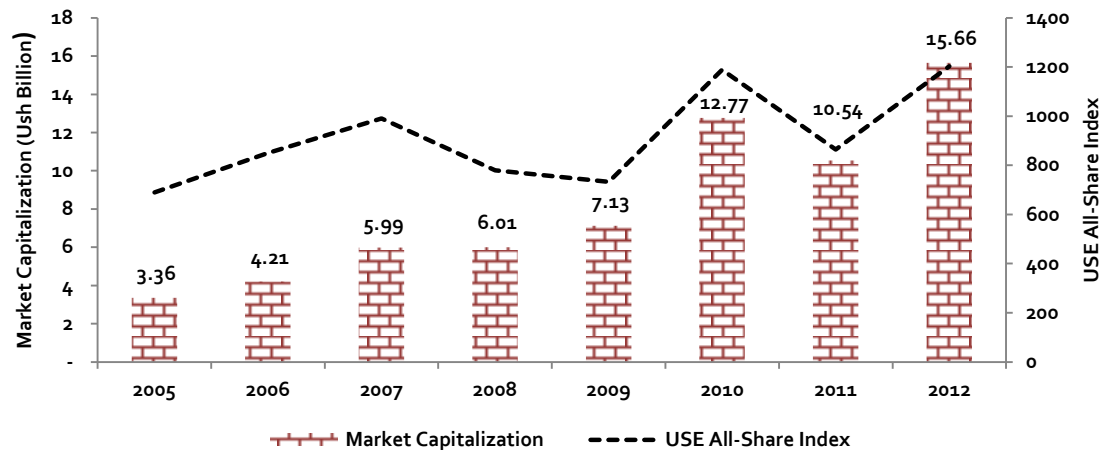
**Figure 1: Trends in Annual Turnover & Share Volume at the Uganda Securities Exchange**



Source of Data: USE Market Reports

Total market capitalization at the USE that measures shareholders wealth rose by 49% to close at **Ush 15.66 trillion (US \$ 6.20 billion)** from **Ush 10.54 trillion (US \$ 4.31 billion)** in the previous year. The USE All-Share index that tracks share price movement was also up by 39% to close the year at 1,203.42 points compared to the 2011 close of 864.45 points (see figure 2).

Figure 2: Trends in Total Market Capitalization and USE All-Share Index



Source of Data: USE Market Reports

Total market capitalization rose partly owing to the listing of Umeme shares as well as increased capitalization on cross-listed counters. The Umeme IPO also stoked up the share volume transacted. In spite of the positive movement on the mentioned market indicators, turnover declined partly as a result of high interest rates on government securities which continued to draw more investors from the equities market to the government debt market.

### 1.3 Objectives of the Survey

The Capital market players' survey sought to generate comprehensive and representative information on:

- i. The growth and development of intermediaries in Uganda's capital markets industry;
- ii. The cost of doing business in Uganda's capital markets industry; and
- iii. The participation of citizens of the East African community (EAC) member states in Uganda's capital markets.

### 1.4 Survey Methodology

The Market Players survey was conducted by the CMA Research and Market Development Department. Structured questionnaires were circulated to twenty two (22) market players in the Ugandan capital markets through e-mail between January 2013 and March 2013. A total of eighteen (18) Market Players responded to the questionnaires.

Financial data for the survey was obtained from financial statements of market players submitted to the Legal and Compliance Department as part of the licence renewal process. The financial statements of twelve (12) market players were aggregated to represent the industry. For comparison of Ugandan market players with their Kenyan counterparts, the financial statements of

sixty one (61) market players from the Kenyan capital markets were aggregated and analyzed. Financial statements of Kenyan market players were obtained from CMA-Kenya, aggregated and converted from Kenya Shillings to US \$ for ease of comparison.

The Statistical Package for Social Scientists (SPSS) was used for both data entry and analysis.

## CHAPTER TWO: MAIN FINDINGS OF THE SURVEY

### 2.1 Introduction

At the end of 2012, the capital markets industry comprised of **eight (8)** market players with broker/dealer/investment advisor licences; **seven (7)** licensees with fund manager licences<sup>1</sup>; **eight (8)** investment advisors; and **one (1)** trustee. There were **twenty three (23)** market players in the industry under the different licence categories. The survey covered the following aspects of Uganda's capital markets industry: growth and development of market intermediaries in Uganda's capital markets; the cost of doing business in the Ugandan capital markets and the participation of citizens of EAC member states in Uganda's capital markets.

### 2.2 Response Rate

A total of twenty two (22)<sup>2</sup> questionnaires were distributed to the Market Players out of which eighteen (18)<sup>3</sup> responded giving the survey a response rate of eighty two percent (82%). A significant number of market players who responded (39%) were Broker/Dealers (see table 1).

**Table 1: Response Rate by Licence Category**

Licence Category	No. of Licensed Persons	No. of Respondents	Response Rate (%)
Broker/Dealer/Investment Advisor	8	7	87.50
Investment Advisor	8	6	75
Fund Manager	5	5	100
Trustee	1	0	0
<b>Total</b>	<b>22</b>	<b>18</b>	<b>82</b>

Source: Survey Findings

### 2.3 Market Players Characteristics

All the eighteen (18) market players that responded were privately owned entities. Three (3) of the market players were fully owned by domestic shareholders, while another three (3) were fully owned by East African shareholders. Quite significantly, foreign shareholders from outside East Africa had a majority shareholding in eight (8) of the market players surveyed (see table 2).

<sup>1</sup> Two Brokers/Dealers are also licensed as fund managers

<sup>2</sup> The Uganda Securities Exchange was excluded from the survey, while at the time of undertaking the survey KCB Bank (U) Ltd and Standard Chartered Bank (U) Ltd had not been issued with a trusteeship licence while UAP Financial Ltd, ICEA and Stanlib had not been issued with Collective Investment Scheme Licences.

<sup>3</sup> Two market players could not respond to the questionnaire as they had not commenced operations.

**Table 2: Shareholding of Market Players Surveyed**

	Domestic Shareholders	East African Shareholders	Shareholders outside East Africa
<b>Fully owned entities</b>	<b>3</b>	<b>3</b>	<b>2</b>
<b>Majority holdings (Over 51% shareholding)</b>		<b>1</b>	<b>8</b>
<b>Minority holdings (Less than 51% shareholding)</b>	<b>3</b>	<b>5</b>	

Source: Survey Findings

Eighty nine percent (89%) of the market players were subsidiary companies (see table 3). Thirty one percent (31%) of the subsidiary companies had parent companies based in Kenya (see table 4).

**Table 3: Company Status**

	Frequency	Percent (%)
<b>Parent Company</b>	<b>2</b>	<b>11</b>
<b>Subsidiary Company</b>	<b>16</b>	<b>89</b>
<b>Total</b>	<b>18</b>	<b>100</b>

Source: Survey Findings

**Table 4: Location of Parent Company**

Country	Frequency	Percent
<b>Dubai</b>	<b>1</b>	<b>6</b>
<b>India</b>	<b>1</b>	<b>6</b>
<b>Kenya</b>	<b>5</b>	<b>31</b>
<b>Mauritius</b>	<b>1</b>	<b>6</b>
<b>South Africa</b>	<b>2</b>	<b>13</b>
<b>Uganda</b>	<b>2</b>	<b>13</b>
<b>United Kingdom</b>	<b>4</b>	<b>25</b>
<b>Total</b>	<b>16</b>	<b>100</b>

Source: Survey Findings

An analysis of the nature of the parent companies for the market players that had indicated that they were subsidiary companies shows that a significant number of the parent companies (31%) were fund managers (asset managers) (see table 5).

**Table 5: Nature of Parent Company**

	Frequency	Percent (%)
<b>Fund Managers</b>	5	31.25
<b>Banks</b>	4	25.00
<b>Investment Banks</b>	2	12.50
<b>Auditing firms</b>	2	12.50
<b>Investment Advisory firms</b>	2	12.50
<b>Insurance company</b>	1	6.25
<b>Total</b>	16	100

Source: Survey Findings

### 2.4 Asset Base of the Industry

An analysis of the balance sheets of the market players revealed that the assets of the industry grew by thirty percent (30%) to **Ush 7.21 billion (US \$ 2.88 million)** at the end of 2012 from **Ush 5.64 billion (US \$ 2.21 million)** at the end of 2011. In comparison, Kenyan market players reported a growth of over five percent (5.25%) in the value of their balance sheet to **US \$ 196.89 million** at the end of 2012 from **US \$ 187.07 million** at the end of 2011. In Uganda, current assets accounted for sixty percent (60%) of the consolidated industry balance sheet value comparing well with Kenya at fifty nine percent (59%) (see table 6).

**Table 6: Total Assets in the Ugandan and Kenyan Capital Markets (2011-2012)**

		2012	2011	Percentage Change (%)
Uganda	Fixed Assets (US \$, Million)	1.14	0.86	32.55
	Current Assets (US \$, Million)	1.74	1.35	28.88
	<b>Total (US \$ Million)</b>	<b>2.88</b>	<b>2.21</b>	<b>30</b>
Kenya	Fixed Assets (US \$, Million)	80.90	76.93	5.16
	Current Assets (US \$, Million)	115.99	110.14	5.29
	<b>Total (US \$ Million)</b>	<b>196.89</b>	<b>187.07</b>	<b>5.25</b>

Source: Survey Findings

An item by item analysis revealed that in Uganda receivables and investments in securities held for trading (classified as current assets) represented thirty eight percent (38%) of the consolidated industry balance sheet value which compares well with Kenya where both items represented forty percent (40%) of the consolidated industry balance sheet value (see table 7). Notably, in Kenya,

market players had **US \$ 30.14 million** in intangible assets which was mainly the value of their seats at the Nairobi Securities Exchange.

**Table 7: Selected Items as a Percentage of the Total Balance Sheet Value**

			2012 (Figures in US \$ , Million)	Percentage of the Total Balance Sheet Value (%)
Uganda	Fixed Assets	Plant and equipment	0.11	4
		Intangible assets	0.01	0.34
	Current Assets	Receivables	0.55	19
		Investments	0.56	19
Kenya	Fixed Assets	Plant and equipment	5.96	3
		Intangible assets	30.14	15
	Current Assets	Receivables	36.84	18
		Investments	43.08	22

Source: Survey Findings

A further scrutiny of the consolidated balance sheet revealed that in Uganda, Broker/Dealers accounted for eighty two percent (82%) of the total value of the consolidated industry balance sheet, while in Kenya, Investment Banks accounted for fifty percent (50%) of the total value of the consolidated industry balance sheet (*see table 8*).

**Table 8: Total Balance Sheet Assets by Licence Category in Uganda and Kenya (2012)**

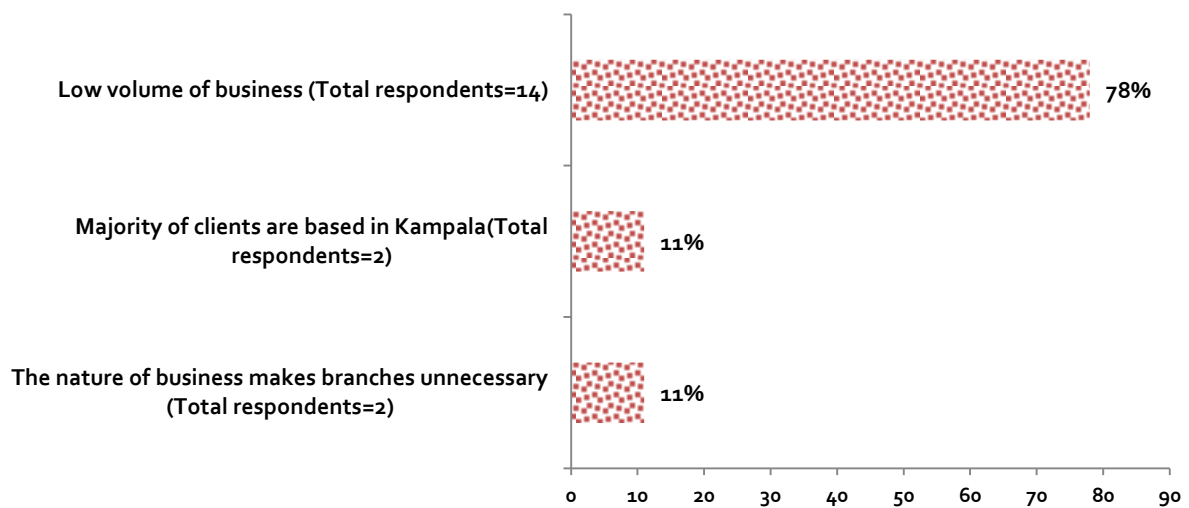
		US \$ (Million)	Percentage (%)
Uganda	Broker/Dealer	2.36	82
	Fund Managers	0.35	12
	Investment Advisors	0.17	6
	<b>Total</b>	<b>2.88</b>	<b>100</b>
Kenya	Brokers	48.15	24
	Investment Banks	98.83	50
	Fund Managers	17.75	9
	Collective Investment Schemes	3.79	2
	Investment Advisors	19.53	10
	Others	8.84	4
	<b>Total</b>	<b>196.89</b>	<b>100</b>

Source: Survey Findings

### 2.4.2 Distribution Network

None of the market players surveyed reported having any branches in Uganda or in East Africa. Majority of the Market Players (78%) cited the low volume of business as the main reason for not having any branches in Uganda and the East African region (see figure 3).

**Figure 3: Reasons Cited by Market Players for Not Having Agents**



Source: Survey findings

Five (5) market players, representing twenty eight (28%) of market players that responded to the survey reported having agents. A significant number of the market players who reported having agents (60%) were licensed as broker/dealers (see table 9).

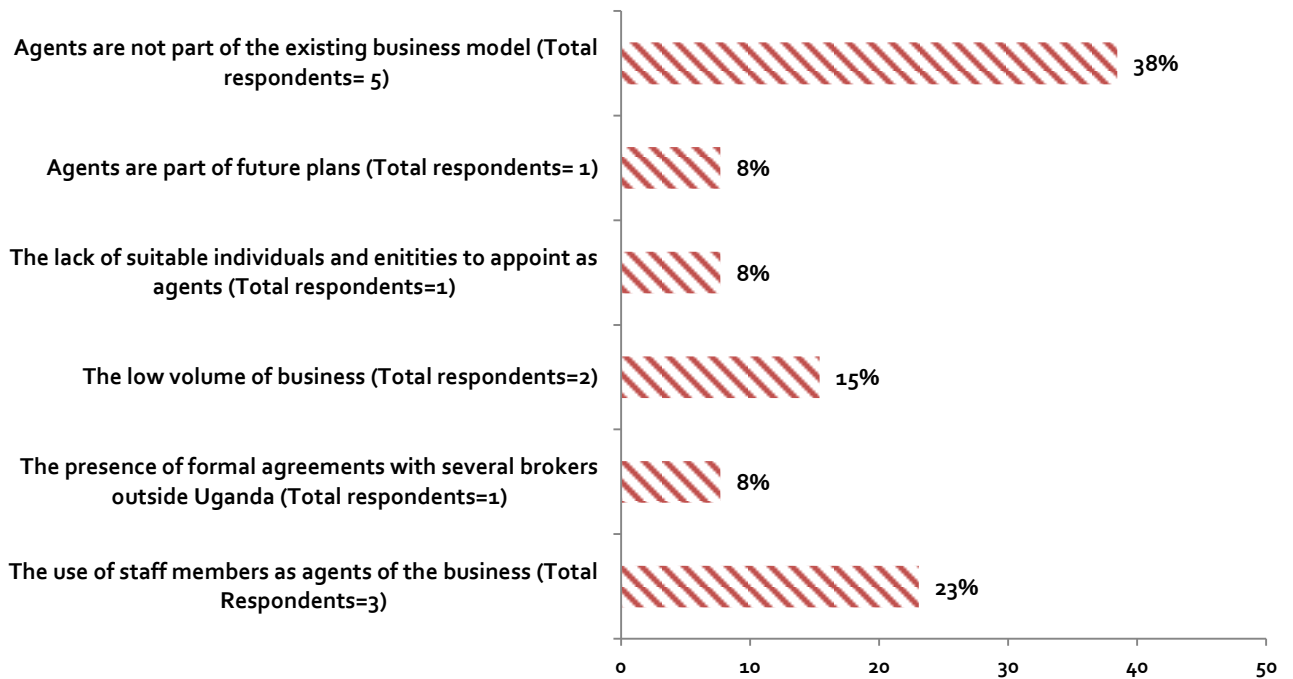
**Table 9: Licence Category of Market Players with Agents**

Licence Category	Frequency	Percent (%)
Investment Advisors	2	40
Broker/Dealers	3	60
<b>Total</b>	<b>5</b>	<b>100</b>

Source: Survey Findings

Notably, thirty eight percent (38%) of the market players without agents indicated that agents did not fit into their existing business models as the main reason for not engaging them (see figure 4).

**Figure 4: Reasons Cited for not Having Agents**

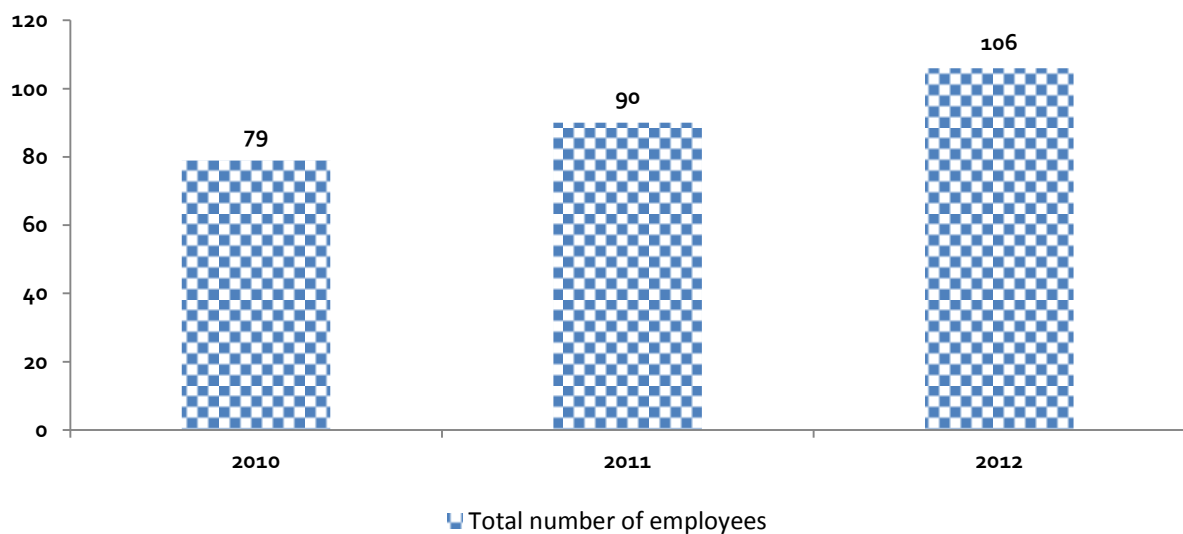


Source: Survey Findings

### 2.4.3 Employment Trends in the Capital Markets Industry

The market players surveyed reported having a total of one hundred and six employees (**106**), a growth of seventeen percent (17%) , from ninety (**90**) employees reported in 2011 (see figure 5). Quite notably, a significant number of employees (49%) were employed by broker/dealers (see table 10).

**Figure 5: Three Year Trend in Total Employees in the Capital Markets Industry**



Source: Survey Findings

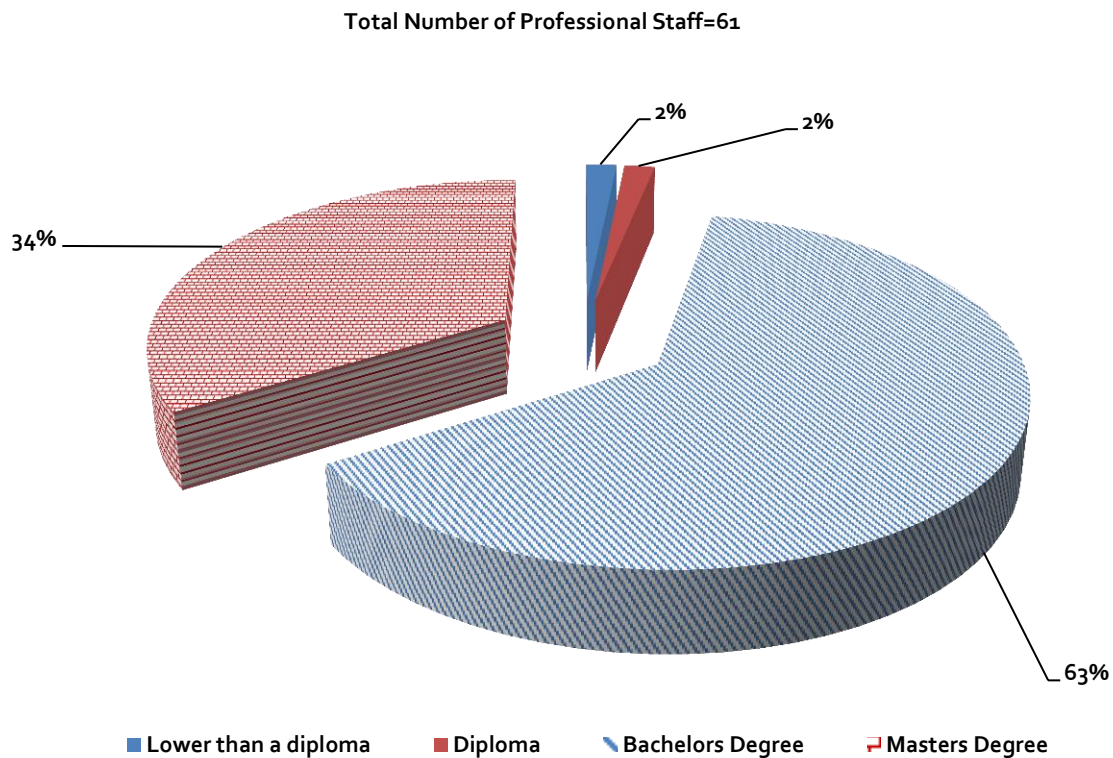
**Table 10: Employees by Licence Category**

Licence Category	Number	Percent (%)
Broker/Dealer	52	49
Investment Advisors	33	31
Fund Managers	21	20
<b>Total</b>	<b>106</b>	<b>100.00</b>

Source: Survey Findings

Sixty one (61) employees were professional staff representing 58% of the total employees in the industry. A large proportion of the professional staff (63%) had a bachelor’s degree as the minimum qualification (see figure 6).

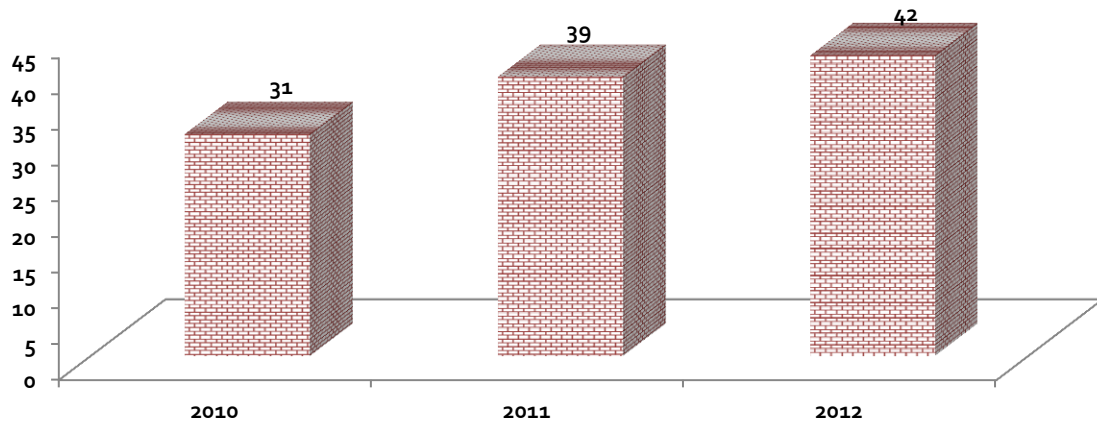
**Figure 6: Qualifications of Professional Staff**



Source: Survey Findings

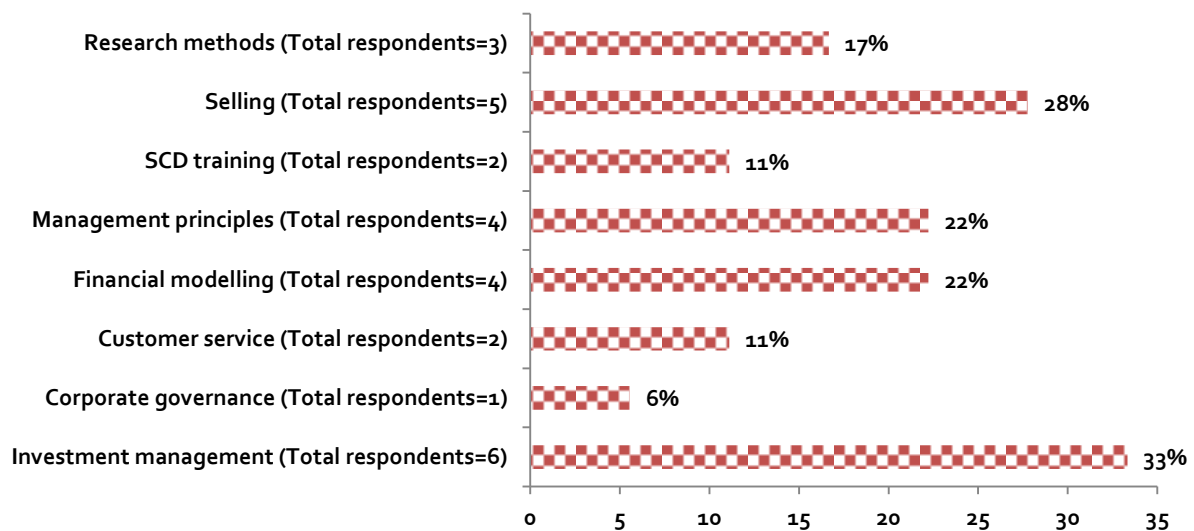
Sixteen (16) market players (representing 89 % of market players that responded to the survey) had a training program for professional staff. In the year 2012, forty two (42) professional staff underwent training, an eight percent (8%) increment from thirty nine (39) who trained in the previous year (2011) (see figure 7). A significant number of professional staff (60%) were trained in investment management (see figure 8).

Figure 7: Trends in Professional Staff Training (2010-2012)



Source: Survey Findings

Figure 8: Areas of Training for Professional Staff in 2012

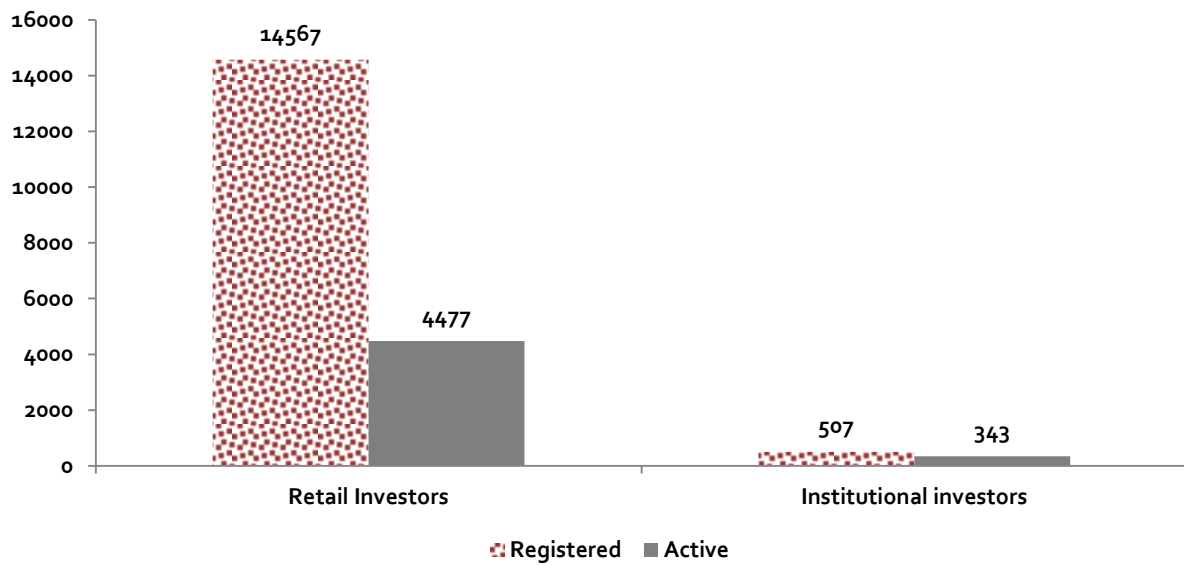


Source: Survey Findings

#### 2.4.4 Client Base

Uganda has an estimated **50,000** registered institutional and retail investors in the capital markets. A total of **19,393** investors had opened SCD accounts by the end of 2012 enabling them to buy and sell shares at the USE. The market players surveyed reported having a total client base of **15,074** registered institutional and retail investors. A total of **14,567** registered investors were retail investors, representing a staggering ninety seven percent (97%) of the registered investors, with the rest being institutional investors. A total of **4,820** registered investors were categorized as being actively engaged in trading in the capital markets of which **4,477** were retail investors representing 93% of the total active investors (see figure 9).

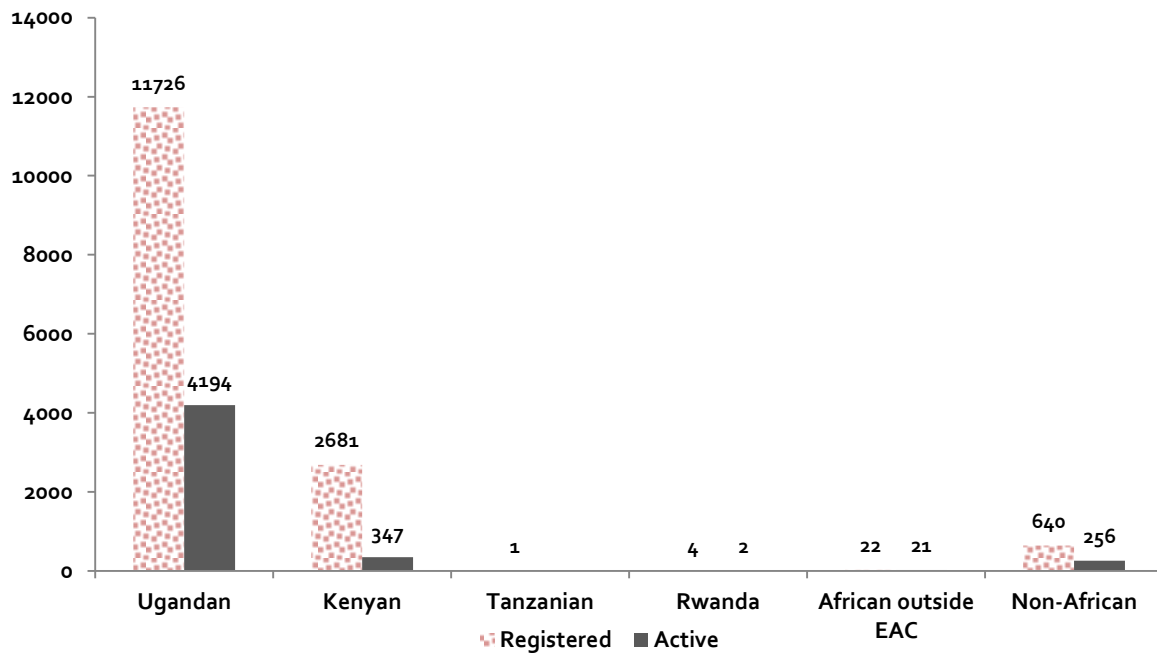
**Figure 9: Status of Client Accounts by Investor Category**



Source: Survey Findings

A breakdown of investors by nationality indicates that a large portion of the investors (**11,726**) were Ugandan retail and institutional investors, representing 78% of the total investor base in the industry. Over four thousand Ugandan investors (**4,194**) were actively engaged in trading at the USE (see figure 10).

**Figure 10: Distribution of Investors by Nationality**



Source: Survey Findings

## 2.5 Industry Performance

In assessing industry performance, the survey focused on industry turnover, costs, profitability and cash flow position. To benchmark performance, the survey compared the financial statements of Ugandan market players against their Kenyan counterparts.

### 2.5.1 Turnover

The market players reported a thirteen percent (13%) decrease in total turnover to **Ush 4.52 billion (US \$ 1.80 million)** in 2012, compared to **Ush 5.20 billion (US \$ 2.04 million)** in 2011. Broker/Dealers accounted for sixty five percent (65 %) of the industry turnover (see table 10). On the other hand, Kenyan market players reported a three percent (3%) growth in turnover to **US \$ 64.52 million** in 2012 from **US \$ 62.90 million** in 2011. Investment banks accounted for forty two percent (42%) of the total turnover (see table 11).

**Table 11: Turnover by Licence Category for Ugandan and Kenyan Market Players**

		2012		2011	
		US \$ ( Million)	Percent (%)	US \$ (Million)	Percent (%)
Uganda	Broker /Dealer	1.17	65	1.09	54
	Fund Managers	0.48	27	0.36	18
	Investment Advisors	0.15	8	0.58	29
	<b>Total</b>	<b>1.80</b>	<b>100</b>	<b>2.04</b>	<b>100</b>
Kenya	Investment Banks	26.91	42	20.28	32
	Broker	9.86	15	9.53	15
	Fund Managers	16.78	26	26.80	43
	Investment Advisors	9.98	15	11.05	18
	Unit trust	0.78	1	-4.91	-8
	Approved entities	0.21	0	0.15	0
	<b>Total</b>	<b>64.52</b>	<b>100</b>	<b>62.90</b>	<b>100</b>

Source: Survey Findings and CMA-Kenya

The largest source of income for Ugandan market players in 2012 was fund management fees at twenty six percent (26%) of the total industry income. This was a departure from the year 2011 when advisory income accounted for thirty eight percent (38%) of the total income. In comparison, Kenyan market players recorded stock brokerage fees as the main source of income, accounting for thirty eight percent (38%) of the total income generated in 2012. In 2011, fund management fees had been the main source of income accounting for forty three percent (43%) of the total industry income in Kenya (see table 12).

**Table 12: Distribution of Turnover by Income Category (Percentages)**

		2012 (%)	2011 (%)
Uganda	Brokerage fees	23	24
	Advisory fees	18	38
	Commissions	20	4
	Other income	13	19
	Fund management	26	15
	<b>Total</b>	<b>100</b>	<b>100</b>
Kenya	Brokerage fees	38	34
	Advisory fees	10	21
	Interest income	5	14
	Other income	11	-15
	Dividend income	0	1
	Fund management income	34	43
	Bond trading income	2	1
	<b>Total</b>	<b>100</b>	<b>100</b>

Source: Survey Findings & CMA-Kenya

### 2.5.2 Industry Total Costs

Industry total costs declined by thirty percent (30%) to **Ush 4.71 billion (US \$ 1.88 million)** in 2012 compared to **Ush 6.73 billion (US \$ 2.64 million)** in 2011. The same trend was witnessed in Kenya where total costs declined by twenty three percent (23%) to **US \$ 51.03 million** in 2012 from **US \$ 66.35 million** recorded in 2011. A key cost item in the Ugandan capital markets was salaries and wages which accounted for thirty six percent (36%) of the total costs in 2012, compared to twenty seven percent (27%) in 2011. Significantly, salaries also accounted for forty six percent (46 %) of the total costs incurred by Kenyan market players in 2012, from thirty six percent (36%) in 2011.

The Uganda capital markets had a total cost to income ratio of **1.43** implying that for every **Ush 100** generated as income, market players were spending **Ush 143** in meeting costs. In divergence, Kenyan market players had a cost to income ratio of **0.74**, implying that for every **US \$ 100** generated as income, **US \$ 74** was spent on meeting the costs (see table 13).

**Table 13: Total Costs, Cost to Income Ratio, Salaries and Salaries as a Percentage of Total Costs**

	Uganda		Kenya	
	2012	2011	2012	2011
<b>Total Costs (US \$, Million)</b>	1.88	2.64	51.03	66.35
<b>Cost-Income Ratio</b>	1.43	1.29	0.74	1.05
<b>Salaries (US \$, Million)</b>	0.67	0.73	23.67	24
<b>Salaries as a percentage of total costs</b>	36	27	46	36

Source: CMA-Uganda & CMA-Kenya

### 2.5.3 Profit/Loss of the Industry

The industry posted an eighty seven percent (87%) reduction in losses to record a loss of **Ush 193.28 million (US \$ 0.08 million)** from a loss of **Ush 1.53 billion (US \$ 0.60 million)** recorded previously. The Market Players recorded a return on assets of over negative two percent (-2.7%) in 2012, from negative twenty seven percent (-27%) in 2011, which was an improvement but indication that that industry was yet to efficiently use the assets at its disposal. On the other hand, Kenya market players posted a growth of over two hundred percent (273%) in profitability to **US \$ 13.56 million** in 2012, turning the corner on a loss of **US \$ 3.45 million** recorded in 2011. Kenyan market players had a healthy return on assets in 2012 standing at over six percent (6.88%) compared to over negative one percent (-1.44%) in 2011 (see table 14).

**Table 14: Profitability and Return on Assets**

	Uganda		Kenya	
	2012	2011	2012	2011
<b>Profit/Loss (US \$ Million)</b>	-0.08	-0.60	13.56	-3.45
<b>Return on Assets (Percent)</b>	-2.7	-27	6.88	-1.84

Source: CMA-Uganda & CMA-Kenya

### 2.5.4 Cash-flow Position

Ugandan market players recorded a thirty three percent (33%) growth to post a net cash flow position of **Ush 1.63 billion (US \$ 0.65 million)** in 2012, from **Ush 1.23 billion (US \$ 0.48 million)** in 2011. Kenyan market players on the other hand closed the year with a fourteen percent (14%) growth in net cash flows to **US \$ 51.38 million** in 2012 from **US \$ 45.21 million** in 2011.

Ugandan market player had positive cash flows from operations and financing of **US \$ 0.02 million** and **US \$ 0.43 million** respectively in 2012, while their Kenyan counterparts reported positive cash flows from operations only of **US \$ 10.90 million** in 2012 (see table 15).

**Table 15: Cash Flow Position of Market Players**

		<b>2012 Figures (US \$, Million)</b>	<b>2011 Figures (US \$, Million)</b>
<b>Uganda</b>	Cash flow from operation	0.02	-0.50
	Cash flow from investing	-0.07	0.20
	Cash flow from financing	0.43	0.93
	<b>Net Cash-flow position</b>	<b>0.65</b>	<b>0.48</b>
<b>Kenya</b>	Cash flow from operation	10.90	-11.60
	Cash flow from investing	-0.78	-5.38
	Cash flow from financing	-2.75	5.16
	<b>Net Cash-flow position</b>	<b>51.38</b>	<b>45.21</b>

Source: CMA-Uganda & CMA-Kenya

#### **2.5.4 Corporate Finance**

Majority of the market players (67%) did not record any corporate finance transactions. Most of the market players with corporate finance transactions (66.67%) were broker/dealers, with the rest being investment advisors. Market players reported a total of four (4) expressions of interest valued at **Ush 644.25 billion (US \$ 257 million)**. The expressions of interest were two each for equity private placements and rights issues. Six (6) deals worth **Ush 776.20 billion (US \$ 309 million)** were completed by market players in 2012. All the deals completed were executed by broker/dealers. A total of three (3) deals were reported to be on-going with an estimated value of **Ush 1 trillion (US \$ 399 million)** (see table 16). A significant number of completed deals (67%) originated from Uganda.

**Table 16: Corporate Finance Transactions (2012)**

Type of Deal	Expression of Interest		Completed		On-Going Deals	
	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)
Initial Public Offer (Equity)			1	170		
Initial Public Offers (Bonds)			1	125		
Private Placements (Equity)	2	19.24	1	0.20	1	0.04
Private Placements (Bonds)					1	1000
Rights Issues	2	625	1	437	1	
Bonus Issues			1	40		
ESOP			1	4		
<b>Total</b>	<b>4</b>	<b>644.25</b>	<b>6</b>	<b>776.20</b>	<b>3</b>	<b>1000.04</b>

Source: Survey Findings

## 2.6 The Cost of doing Business

Market players in Uganda's capital markets apply for the renewal of their licences from CMA annually. This goes a long way in ensuring that the Ugandan capital markets are orderly and investors are well protected by having only accredited entities render services within the industry. The annual licence renewal process has three stages:

- i. **Submission of Application for Licence Renewal Documents by the Market Players-** All licences are usually due for renewal at the end of 31<sup>st</sup> March of each year. The market players usually have a one (1) month window period from 1<sup>st</sup> of March to 31<sup>st</sup> of March annually to submit their application for renewal together with the supporting documentation to the Legal and Market Supervision Department of CMA.
- ii. **Review of Application Documents-**CMA's Legal and Market Supervision Department reviews all applications on a case by case basis and makes a recommendation to the Board of Directors for licence renewal if the requirements have been met.
- iii. **Board Approval-**The CMA Board of Directors that meets every quarter of the year during its sittings approves the renewal of licences for the different market players based on the recommendations of the Legal and Market Supervision Department.

In an ideal situation, the process should take a minimum of twenty (20) working days from the receipt of the documents for licence renewal (*see figure 11*).

**Figure 11: Licence Renewal Process**



Source: CMA Legal and Market Supervision Department

Market players surveyed reported that it took an average of twenty six (**26**) working days (*see table 17*) for their licenses to be renewed from the time they submitted their application to the time they received the licences. This is an improvement from thirty three (**33**) working days reported in 2011. The longest period it took to renew a licence was forty five (**45**) working days in 2012, similar to the period reported in 2011. On the other hand, the shortest period reported was ten (**10**) working days in 2012, compared to seven (**7**) working days in 2011.

**Table 17: Time Spent on Licence Renewal (Number of Working Days)**

Indicator	2012	2011
Average	<b>26</b>	<b>33</b>
Minimum	<b>10</b>	<b>7</b>
Maximum	<b>45</b>	<b>45</b>

Source: Survey Findings

Market Players reported spending an average of two (**2**) working days to compile the information required for CMA inspections in 2012, similar to the time reported in 2011 (*see table 18*). The shortest period spent on preparations for inspections was one (**1**) working day, while the longest period was 5 working days in 2012.

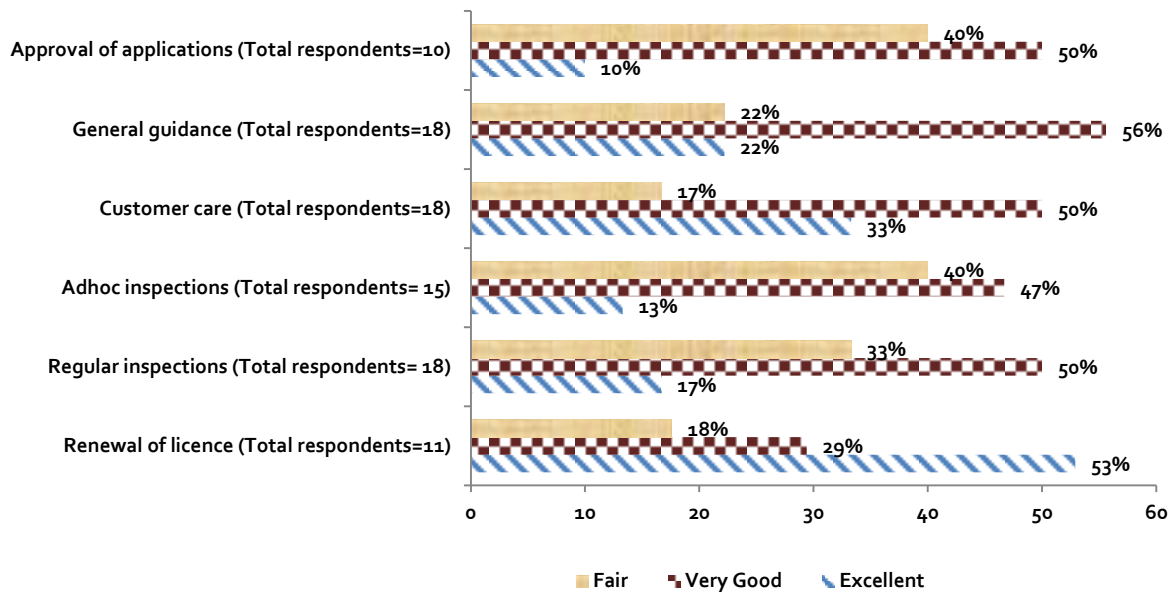
**Table 18: Time Spent on Compilation of Information for CMA Inspections**

Indicator	2012	2011
Average	<b>2</b>	<b>2</b>
Minimum	<b>1</b>	<b>1</b>
Maximum	<b>5</b>	<b>3</b>

Source: Survey Findings

The market players rated CMA’s interaction with them. The areas of interaction included: licence renewal, inspections, customer care aspects, guidance aspects and interactions during approval for primary and secondary market issues. The good customer care of CMA staff received a high positive rating with eighty three percent (83%) of the market players ranking it as being good (*see figure 12*).

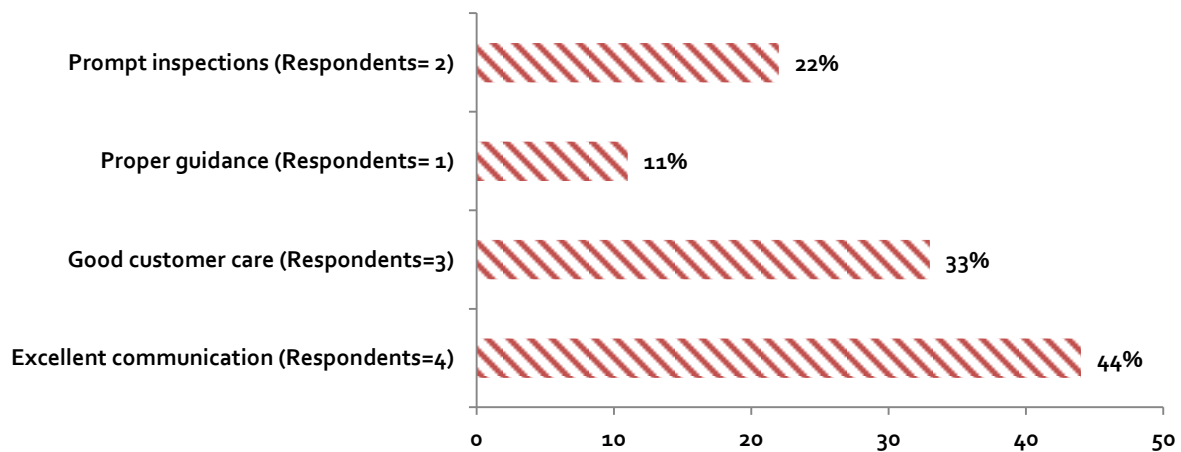
**Figure 12: Rating of CMA's Interactions with Market Players**



Source: Survey Findings

Excellent communication was cited by forty four percent (44%) of the market players as the main reason for the favorable ratings given to their interactions with CMA (see figure 13).

**Figure 13: Reasons for the Favourable Ratings of Interactions with CMA**

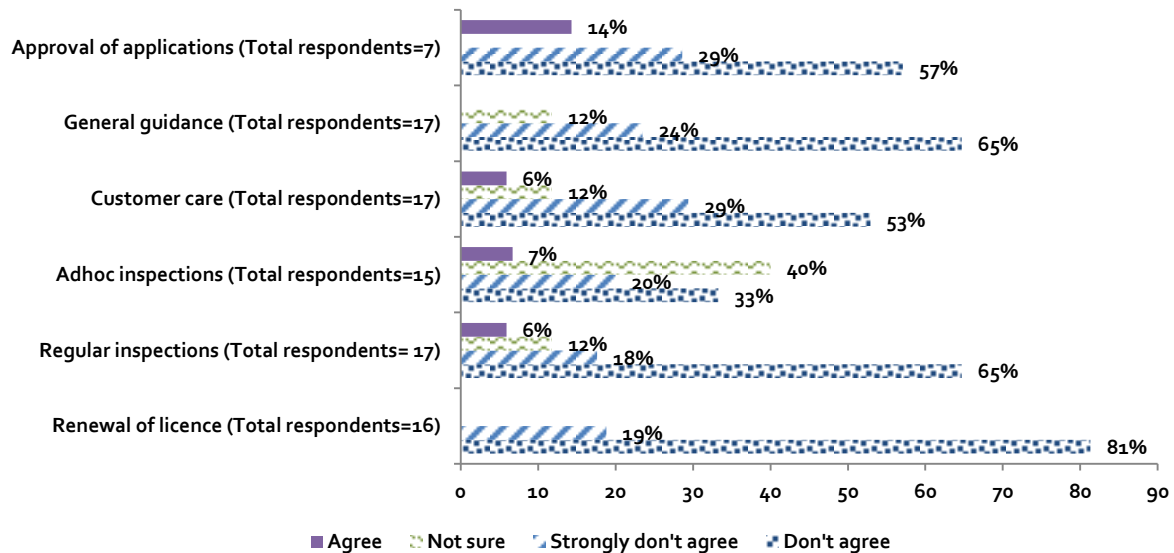


Source: Survey Findings

Market players who gave unfavorable ratings on some of the aspects of their interaction with CMA cited the lack of proper guidance, delays in license renewal and the slow pace of approving market transactions such as IPOs', bonus issues and rights issues.

The Market Players commented on whether various aspects of the CMA processes were cumbersome and time consuming. Most Market Players (81 %) disagreed with the view that the renewal of licences was time consuming and cumbersome (See figure 14).

**Figure 14: Ratings on whether CMA Processes are Cumbersome**



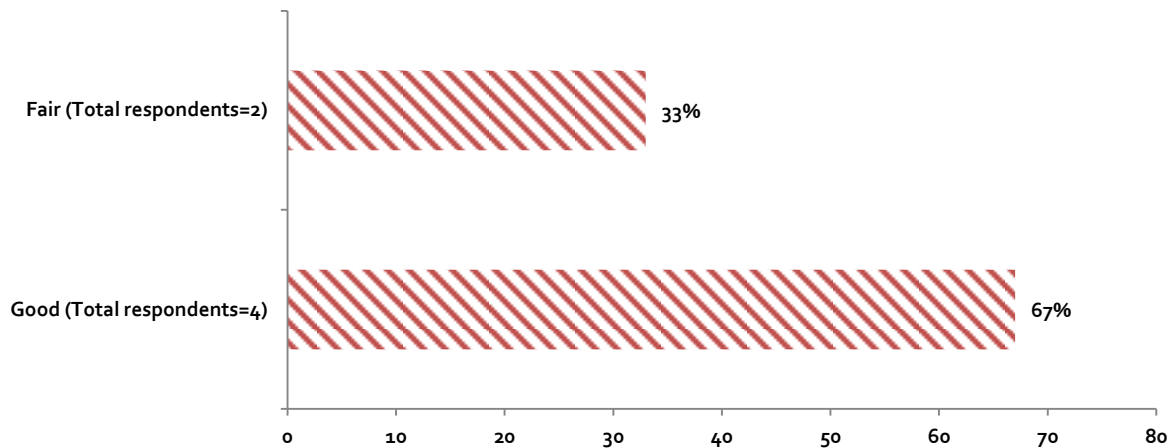
Source: Survey Findings

Market players who felt that CMA processes were time consuming and cumbersome mentioned the long period of time spent on document retrieval and review during inspections and delays in licence issuance. To improve the CMA processes, market players suggested: enhancement of interactions between the regulator and the market players; faster approval of applications for primary and secondary issues; consistency in the CMA processes; use of survey questionnaires during interviews; and desk review of documents submitted to CMA instead of holding follow up meetings.

When asked to make comments on the regulatory environment, market players felt that the environment was generally good but highlighted the need for the regulator to focus on risk based supervision, provide regular training for market players and align the environment to new asset classes.

Seven (7) market players (representing a thirty nine percent (39%) of the total number of market players surveyed) were members of the USE. Six (6) members of the USE rated its performance with a majority of them (67%) saying that it was good (see figure 15). The market players gave the USE favorable ratings owing to the additional listings at the exchange; timeliness of decision making; better cost management; and introduction of new rules at the bourse.

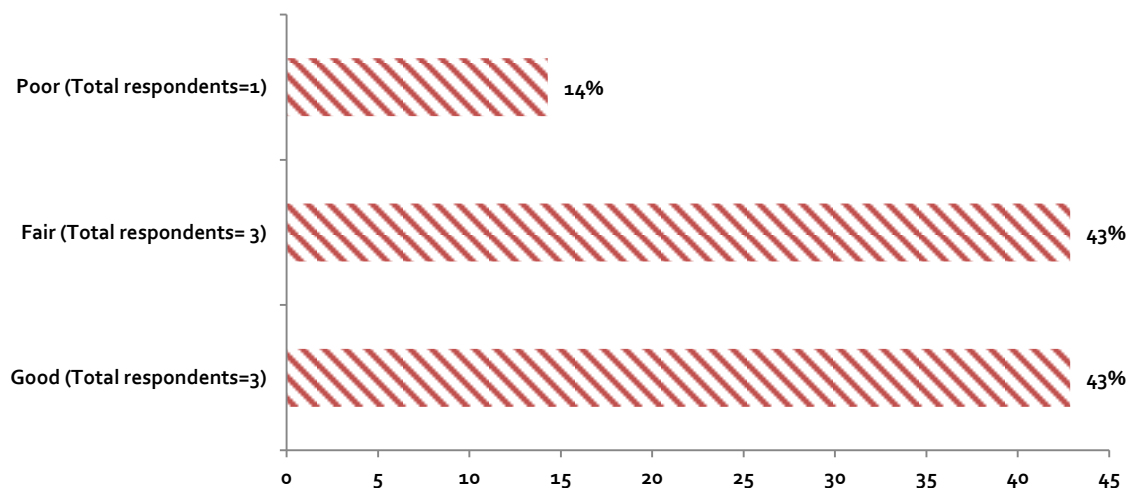
**Figure 15: Rating of the USE as a Self-Regulatory Organization**



Source: Survey Findings

All the seven (7) Broker/Dealers surveyed were SCD agents. Forty three percent (43%) of the SCD agents rated the performance of the SCD as being good, with a similar percentage ranking it as being fair (see figure 16). The positive ratings of the SCD performance were due to the good performance in dealing with the huge volumes of the Umeme IPO. However, concerns were expressed over delays by the SCD in crediting the Umeme IPO shares as well as Stanbic Bank Uganda bonus shares hence denying investors a chance to trade. The slow pace of share certificate immobilization was also highlighted as a weakness of the SCD (see figure 16).

**Figure 16: SCD Ratings**



Source: Survey Findings

## 2.7 Participation of Citizens of EAC Member States in Uganda's Capital Markets

Eighty nine percent (89%) of all the Market Players surveyed were subsidiaries of other companies (see table 3). Thirty one percent (31%) of the subsidiaries had their parent companies being incorporated in Kenya with none of the subsidiaries having parent companies in the other member states of the EAC (see table 4).

A total of three thousand and thirty three (3,033) clients representing twenty percent (20 %) of the total registered clients were from the East African region. Kenyan investors accounted for the bulk of the EAC region investors at eighty eight percent (88%).

## 2.8 Other Capital Markets Indicators

### 2.8.1 Corporate Governance

All the market players surveyed indicated that they had a Board of Directors in recognition of the oversight role that boards play in company performance, maximization of shareholders value as well as safeguarding of the interests of shareholders. The average number of Directors per board was five (5), with the least number of Directors being two (2) in 2012, similar to the 2011 findings. In contrast, the largest Board had nine (9) Directors in 2012, compared to seven (7) reported in 2011 (see table 19).

**Table 19: Size of the Board of Directors**

Indicator	2012	2011
Average	5	5
Minimum	2	2
Maximum	9	7

Source: Survey Findings

Fund Managers had the highest average number of Directors on their Boards (6) (see table 20).

**Table 20: Size of Board by Licence Category**

	Maximum	Average	Minimum
Broker/Dealer	7	5	2
Investment Advisors	9	5	2
Fund Managers	9	6	4

Source: Survey Findings

Eighty six percent (86%) of the market players reported having non-executive Directors on their Boards. The average number of non-executive Directors on a Board was four (4) in 2012 from three (3) in 2011. The highest number of non-executive Directors reported was eight (8) while the least

was two (2) in 2012, compared to a maximum of six (6) and minimum of one (1) non-Executive Directors in 2011 (see table 21).

**Table 21: Non-Executive Directors**

Indicator	2012	2011
Average	4	3
Minimum	2	1
Maximum	8	6

Source: Survey Findings

Fund Managers and Broker Dealers reported having an average of four (4) Non-Executive Directors. This is an indicator that they appreciate the need for Directors who are independent of the management and free from any other business relationships that could interfere with the exercise of independent judgment (see table 22).

**Table 22: Number of Non-Executive Directors by Licence Category**

	Maximum	Average	Minimum
Broker/Dealer	5	4	2
Investment Advisors	5	3	2
Fund Managers	8	4	2

Source: Survey Findings

Fourteen (14) market players provided a detailed breakdown of the composition of their boards. An interrogation of the board composition revealed that a significant number of the board members (37%) were major shareholders of the market players surveyed (see table 23). A staggering ninety five percent (95%) of all the Directorships were held by shareholders, their representatives or associated parties raising concerns over the level of board independence.

**Table 23: Board Composition for Market Players**

	Frequency	Percentage (%)
Founders	28	34
Major shareholders	31	37
Representatives of professional bodies	5	6
Nominees of major shareholders	18	22
Nominees of associate companies	1	1
<b>Total</b>	<b>83</b>	<b>100</b>

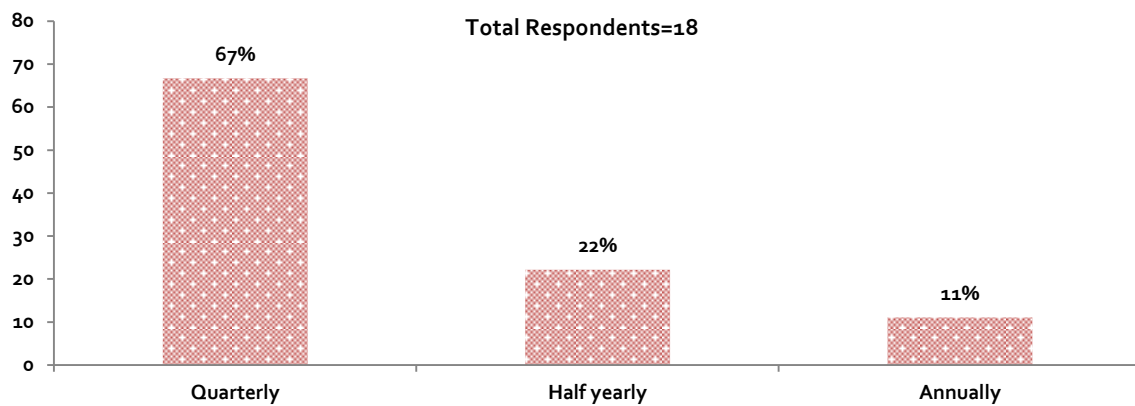
Source: Survey Findings

Fourteen (14) market players (representing 78% of the market players surveyed) indicated that the role of the Chairperson of the Board was segregated from that of the Chief Executive Officer. The

segregation of duties enables a non-executive Chairman to have a better independent oversight over management and room to closely align the board with shareholders.

A large number of the Boards (67%) met quarterly which shows that they frequently discussed and monitored company affairs in fulfilling their oversight roles (see figure 17).

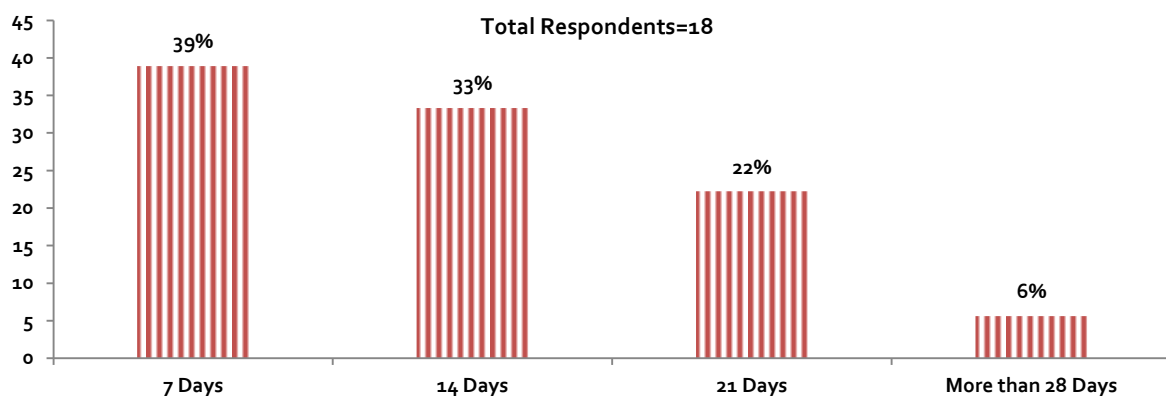
**Figure 17: Frequency of Board Meetings**



Source: Survey Findings

Most market players (39%) gave their boards a 7-day period within which to consider the agenda for board meetings. The Board Agenda is usually the tool that the chair employs to guide the discussion and a reminder to members to stay focused. International best practice requires that the agenda should be circulated at least 14 days before a meeting to facilitate preparations by Directors (see figure 18).

**Figure 18: Time Period Given to Board Members to Consider Agenda for a Board Meeting**



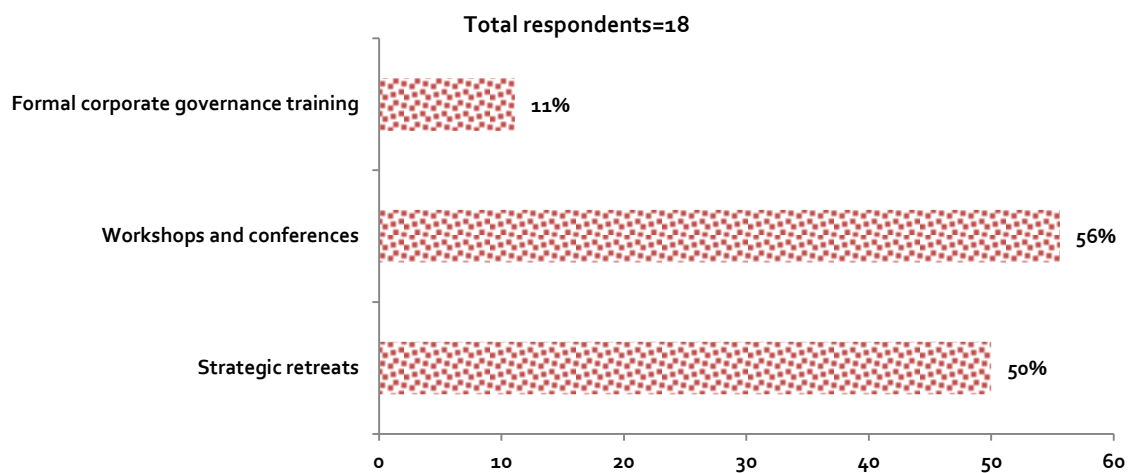
Source: Survey Findings

Majority of the Boards (61%) did not have any Board committees. The Boards which had Committees reported having: Finance; audit and risk; asset and liability; and compensation

committees. The absence of Board Committees could be a sign that the market players are unable to shoulder the cost of maintaining them.

In order to support Board Members in acquiring the knowledge and skills for the execution of their monitoring and accountability roles, board development programs were undertaken by the market players. Majority of the market players (56%) indicated that workshops and conferences were their preferred tools of board development (see figure 19).

**Figure 19: Board Development Programs**



Source: Survey Findings

Majority of the market players (56%) indicated that their Boards did not undergo evaluation (see table 24).

**Table 24: Board Evaluation**

	Frequency	Percentage (%)
Yes	7	44
No	9	56
<b>Total</b>	<b>16</b>	<b>100</b>

Source: Survey Findings

An analysis of board evaluation by licence category revealed that fifty seven percent (57%) of market players that undertook Board evaluation were fund managers (see table 25).

**Table 25: Board Evaluation by Licence Category**

Licence Category	Frequency	Percentage (%)
Broker/Dealer	2	29
Investment Advisor	1	14
Fund Management	4	57
<b>Total</b>	<b>7</b>	<b>100</b>

Source: Survey Findings

Half of the market players (50%) indicated that their Boards were evaluated annually (see table 26).

**Table 26: Frequency of Board Evaluation**

Duration	Frequency	Percent (%)
2 Years	1	17
3 Years	1	16
Annually	3	50
Bi-annually	1	17
<b>Total</b>	<b>6</b>	<b>100</b>

Source: Survey Findings

### 2.8.2 Research and Market Analysis

Significantly, fifteen (15) market players (representing 83% of the respondents) undertook some form of research and market analysis with eleven (11) of them publishing it. Broker/Dealers were the main market players publishing their research material (see table 27).

**Table 27: Publication of Research Materials by Licence Category**

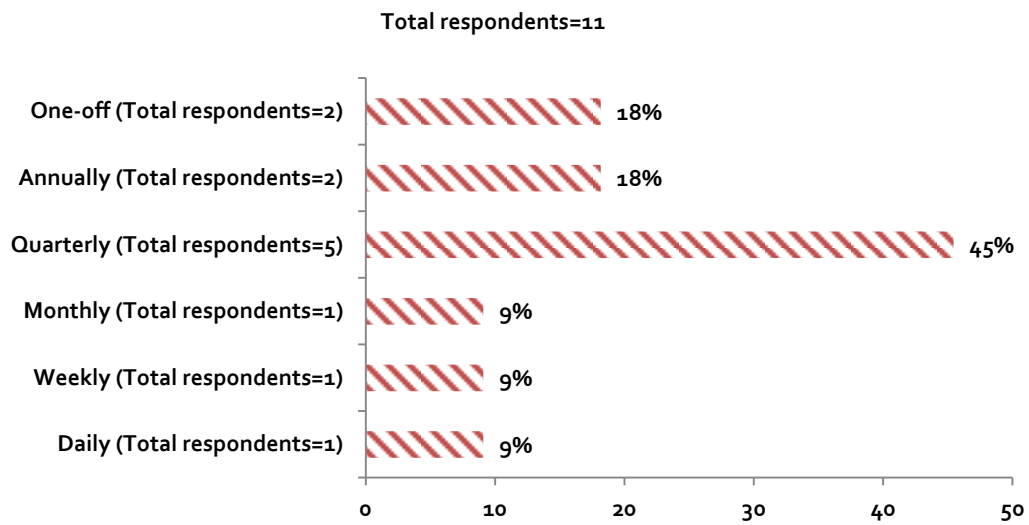
Licence Category	Frequency	Percent (%)
Broker/Dealer	5	46
Fund management	2	18
Investment Advisor	4	36
<b>Total</b>	<b>11</b>	<b>100</b>

Source: Survey Findings

The market players reported having a variety of research publications such as: Quarterly Market Reports; Quarterly Economic Reports; Monthly Economic Reports; Daily Market Reports; Investor Insights; and Economic Performance reports. Noteworthy, the preferred frequency for the publications was every quarter (see figure 20).

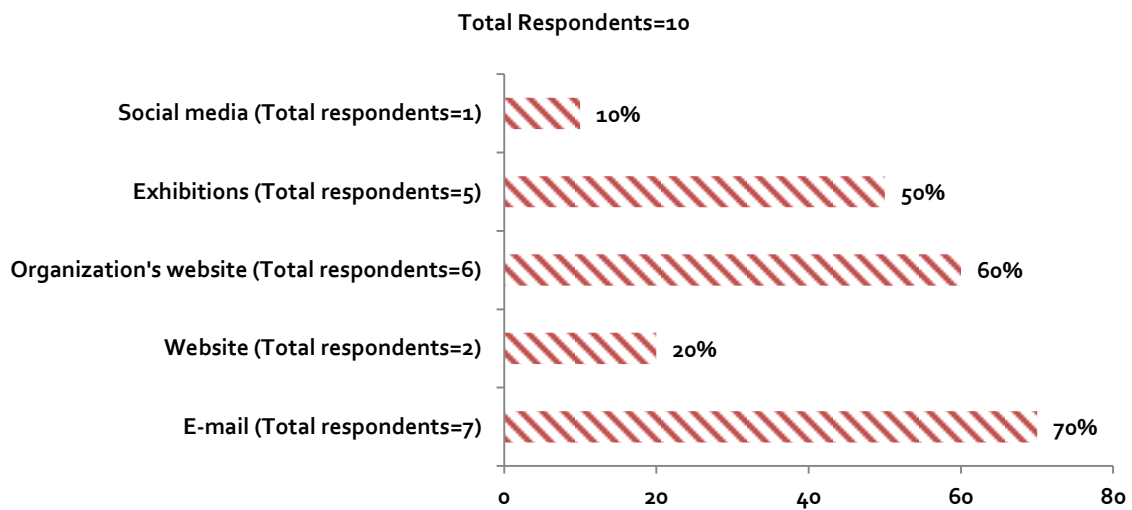
Ten (10) market players who published their research material reported distributing it. The preferred channel of distribution for research publications was through e-mail with seventy percent (70%) of market players making use of this channel (see figure 21).

**Figure 20: Frequency of Publications**



Source: Survey Findings

**Figure 21: Distribution Channel for Research Publications**



Source: Survey Findings